

Message Text

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ACTION NEA-09

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R 271215Z FEB 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7167

INFO AMCONSUL BOMBAY

AMCONSUL MADRAS

AMCONSUL CALCUTTA

AMEMBASSY KATHMANDU

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

AMEMBASSY OEC PARIS

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E.O. 11652: N/A

TAGS: EGEN, ECON,IN

SUBJ: GOI ECONOMIC SURVEY 1974/75: TIMES ARE TOUGH BUT
THINGS SHOULD GET A LITTLE BETTER

REF: NEW DELHI A-71

BEGIN SUMMARY: THE GOI'S ECONOMIC SURVEY, WHICH HAS JUST
BEEN PRESENTED TO PARLIAMENT IS AN EXCEPTIONALLY PERCEPTIVE AND
CANDID LOOK AT THE INDIAN ECONOMY. THE SURVEY FINDS THAT INDIA'S
ECONOMY HAS NOT BEEN DOING VERY WELL FOR SEVERAL YEARS, AND 1974
WAS ESPECIALLY BLEAK. IT IS A LITTLE MORE OPTIMISTIC ABOUT THE
FUTURE, LARGELY BECAUSE OF THE SUCCESS OF SOME RECENT POLICY
MEASURES. HOWEVER, IT NOTES A NEED FOR MORE AND BETTER FOREIGN
AID, INCLUDING DEBT RESCHEDULING, FOR EXPORT PROMOTION, AND FOR
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ATTENTION TO BOTTLENECKS. IT ALSO CALLS FOR A REEMPHASIS ON

AGRICULTURE TO RESTORE GROWTH AND STABILITY TO THE INDIAN ECONOMY
AND FOR MORE ATTENTION TO FAMILY PLANNING. END SUMMARY.

1. THE ANNUAL GOI ECONOMIC SURVEY, WHICH COMES OUT EVERY YEAR JUST BEFORE THE BUDGET IS PRESENTED TO PARLIAMENT, IS EXCEPTIONALLY CANDID AND PERCEPTIVE THIS YEAR, EVEN BY THE GOOD-STANDARD ON THESE SCORES IT HAS SET IN THE PAST. IT IS, HOWEVER, MUCH MORE CAUTIOUS THAN THE NCAER SURVEY HAD BEEN (NEW DELHI A-71 OF FEBRUARY 21). WE ARE TRANSMITTING THE GOI SURVEY UNDER CERP, WITH THE SUGGESTION THAT IT IS WORTH READING - OR AT LEAST SKIMMING -- BY ANYONE INTERESTED IN INDIA. IT UNDERSTANDABLY CLAIMS SOME SUCCESS FOR RECENT GOVERNMENT POLICY MEASURES (INCLUDING ESPECIALLY THE ANTI-INFLATIONARY MEASURES TAKEN LAST YEAR) AND FINDS SOME RAYS OF HOPE FOR A BRIGHTER IMMEDIATE FUTURE. HOWEVER, THE SURVEY LEAVES LITTLE DOUBT THAT FAILURES IN POLICY PERCEPTION AND EXECUTION AND NOT JUST BAD LUCK HAVE PLAYED A MAJOR ROLE IN LANDING INDIA IN ITS PRESENT PREDICAMENT. IT IS PARTICULARLY SHARP IN FOCUSING ON THE BOTTLENECKS -- E.G., ELECTRIC POWER, FERTILIZER, INDUSTRIAL RAW MATERIALS -- THAT HAVE CAUSED INDIA'S ECONOMIC PROGRESS TO LAG SO FAR BEHIND WHAT HAD BEEN HOPED.

2. ACCORDING TO THE SURVEY, INDIA'S NATIONAL INCOME IN REAL TERMS ROSE BY ONLY ONE PERCENT IN 1974/75, THE FIRST YEAR OF THE FIFTH FIVE-YEAR PLAN, COMPARED WITH AN ANNUAL PLAN TARGET OF 5.5 PERCENT, AND LAGGED MUCH BEHIND THE 3 PERCENT AVERAGE ANNUAL GROWTH RATE ACHIEVED IN THE FOURTH PLAN PERIOD (1969-74). THIS IS PARTICULARLY DISAPPOINTING CONSIDERING THE 2.2 PERCENT AVERAGE ANNUAL INCREASE IN POPULATION. AGRICULTURAL GROWTH WAS ALMOST STAGNANT WHILE INDUSTRIAL PRODUCTION INCREASED BY ONLY 3.5 PERCENT. THE SURVEY POINTS TO THE DECLINE IN THE RATE OF SAVINGS AND INVESTMENT IN RECENT YEARS WHICH IT SAYS IS THE RESULT OF INFLATION. THE RATE OF SAVINGS AS A PERCENTAGE OF NATIONAL INCOME IN 1974/75 IS ESTIMATED AT 10 PERCENT AND THE RATE OF INVESTMENT AT 11 PERCENT, THE SAME LEVELS AS IN 1973/74, BUT LOWER THAN THE 11.4 PERCENT FOR SAVINGS AND 12.9 PERCENT FOR INVESTMENT IN 1971/72.

3. INDUSTRIAL PRODUCTION REMAINED ALMOST STAGNANT IN THE FIRST SIX MONTHS OF 1974 CAUSED MAINLY BY THE ACUTE POWER SHORTAGE AND UNDER UTILIZATION OF CAPACITY. INDUSTRIAL ACTIVITY PICKED UP IN THE LATTER HALF OF 1974 AND THE SURVEY ESTIMATES A 3.5 PERCENT

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INDUSTRIAL GROWTH FOR IFY 1974/75, CLOSE TO THE 3.9 PERCENT AVERAGE ANNUAL GROWTH DURING THE FOURTH PLAN PERIOD BUT SUBSTANTIALLY LOWER THAN THE AVERAGE 8 PERCENT ANNUAL INDUSTRIAL GROWTH RATE ACHIEVED BY INDIA IN 1956-1964. THE PRESENT IMPROVEMENT IN THE PRODUCTION OF STEEL, COAL, AND POWER GENERATION SHOULD PROVIDE A STIMULANT TO FURTHER INDUSTRIAL GROWTH IN 1975/76 ALTHOUGH A GREAT DEAL WILL DEPEND ON THE ADEQUATE AVAILABILITY OF AGRICULTURAL RAW MATERIALS.

4. IN AGRICULTURE, INDIA APPEARS TO HAVE LOST THE GREEN REVOLUTION MOMENTUM OF THE LATE SIXTIES. BECAUSE OF WIDESPREAD DROUGHT, FOODGRAIN PRODUCTION DROPPED TO 97 MILLION TONS IN 1972/73 FROM A PEAK OF 108 MILLION TONS IN 1970/71 AND PICKED UP ONLY TO 103.6 MILLION TONS IN 1973/74. DROUGHT CONDITIONS CONTINUED IN THE FIRST PART OF 1974 AND, DESPITE IMPROVED WEATHER CONDITIONS FOR THE PRESENT RABI OR SPRING HARVESTED CROP THE SURVEY SAYS 1974/75 FOODGRAIN PRODUCTION IS NOT LIKELY TO EXCEED THE 1973/74 LEVEL. TO FEED A GROWING POPULATION AND TO CHECK INFLATION, INDIA HAD TO IMPORT ABOUT 5 MILLION TON FOODGRAINS LAST YEAR AND IS EXPECTED TO IMPORT ADDITIONAL QUANTITIES THIS YEAR. PRODUCTION PROSPECTS FOR 1975/76 ARE DESCRIBED AS SOMEWHAT BETTER BUT UNCERTAIN, ESPECIALLY IN VIEW OF THE SHORTAGE AND HIGH PRICES OF ESSENTIAL INPUTS LIKE FERTILIZERS. SIGNIFICANTLY, THE SURVEY CONCLUDES: "THE OVERALL OUTLOOK WILL BE GREATLY INFLUENCED BY THE TREND OF AGRICULTURAL OUTPUT. THE RESUMPTION OF AN ORDERLY PROCESS OF GROWTH WITH STABILITY IS, THEREFORE, CRUCIALLY DEPENDENT ON OUR ABILITY TO IMPART A NEW ELEMENT OF DYNAMISM TO INDIAN AGRICULTURE". SCHNEIDER

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5. DETERIORATION IN BUDGETARY ACCOUNTS CAUSED BY INCREASED COST OF LIVING ALLOWANCES TO GOVERNMENT EMPLOYEES, HIGHER FOOD AND FERTILIZER SUBSIDIES, AND LARGER DISBURSEMENTS TO STATE GOVERNMENTS FOR FLOOD AND DROUGHT RELIEF FORCED THE GOI TO ANNOUNCE IN JULY 1974 A SUPPLEMENTARY BUDGET TO RAISE NEARLY DOLS170 MILLION IN NEW TAXES. INSPITE OF THIS MEASURE, THE IFY 1974/75 GOI BUDGET DEFICIT IS EXPECTED TO BE SUBSTANTIALLY HIGHER THAN THE INITIAL ESTIMATE OF DOLS157 MILLION. THE SURVEY RUES THE "INSIGNIFICANT" EFFORTS MADE BY THE STATE GOVERNMENTS TO RAISE TAXATION ON THE VIRTUALLY UNTAXED AGRICULTURAL SECTOR TO MEANINGFUL LEVELS. GOVERNMENT'S TIGHT FISCAL AND MONETARY POLICIES HELPED TO SUBSTANTIALLY REDUCE THE GROWTH IN MONEY SUPPLY. AS OF JANUARY 17, 1975 MONEY SUPPLY WAS ONLY 4.3 PERCENT HIGHER THAN AT END-MARCH 1974 COMPARED WITH A 9.4 PERCENT INCREASE IN THE SAME PERIOD OF 1973/74.

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6. AN ENCOURAGING DEVELOPMENT IS THE DECELERATION IN RATE OF INFLATION. WHOLESALE PRICES AFTER RISING TO A RECORD HIGH OF 32 PERCENT AT END-SEPTEMBER 1974 DECLINED BY ROUGHLY 5 PERCENT IN THE LAST QUARTER OF 1974. AT END-DECEMBER, THE WHOLESALE PRICE LEVEL WAS STILL 18.8 PERCENT HIGHER THAN AT END-DECEMBER 1973. THE RECENT DOWNTREND IN PRICES IS ATTRIBUTED TO THE ANTI-INFLATIONARY MEASURES UNDERTAKEN BY THE GOVERNMENT IN JULY 1974 AND TO THE CREDIT SQUEEZE AND SMALL GROWTH IN MONEY SUPPLY. PROSPECTS FOR PRICE STABILITY IN 1975/76 ARE DIMMED BY THE EXISTING LARGE IMBALANCE IN THE DEMAND AND SUPPLY OF CONSUMER GOODS AND THE UNCERTAIN GROWTH IN AGRICULTURAL PRODUCTION.

7. THE LARGE INCREASE IN OIL, FOOD AND FERTILIZER PRICES PUSHED INDIA'S IMPORTS UP 54 PERCENT TO A LEVEL OF RS.24.5 BILLION (DOLS3.1 BILLION) IN APRIL-NOVEMBER 1974, THE FIRST EIGHT MONTHS OF IFY 1974/75. HOWEVER, ITS IMPACT ON THE BALANCE OF PAYMENTS WAS LESSENED BY AN ENCOURAGING 36 PERCENT INCREASE IN EXPORTS TO A LEVEL OF RS.20.3BILLION (DOLS2.5 BILLION) IN THE SAME PERIOD, AIDED BY HIGHER INTERNATIONAL PRICES OF INDIAN EXPORT PRODUCTS ESPECIALLY SUGAR. THE REMAINDER OF THE TRADE DEFICIT WAS COVERED BY FOREIGN ASSISTANCE AND BY DRAWINGS ON IMF INCLUDING THE OIL FACILITY. INDIA'S FOREIGN EXCHANGE RESERVES AT END-DECEMBER 1974 ARE ESTIMATED AT RS.9.50 BILLION (DOLS1.3 BILLION) WHICH, HOWEVER, ARE EXPECTED TO SHOW A SIZEABLE DECLINE IN JANUARY-MARCH 1975. ADDITIONAL BORROWING FROM THE OIL FACILITY WILL GIVE INDIA ANOTHER YEAR TO ADJUST TO A HIGHER IMPORT LEVEL. NEVERTHELESS, THE SURVEY INDICATES A NEED FOR MUCH BETTER EXPORT PROMOTION. THE SURVEY ANTICIPATES A FURTHER WORSENING OF THE

FOREIGN EXCHANGE POSITION AS REPAYMENTS UNDER IMF DRAWINGS AND OIL CREDITS PROVIDED BY IRAN AND IRAQ FALL DUE IN THREE TO SEVEN YEARS. GROSS FOREIGN AID IN 1974/75 IS ESTIMATED AT DOLS1.4 BILLION AND DEBT SERVICE AT DOLS750 MILLION. TO FINANCE THE ANTICIPATED LARGE BALANCE OF PAYMENTS DEFICITS, THE SURVEY STRESSES THE CRUCIAL IMPORTANCE OF ADDITIONAL FOREIGN AID AND DEBT RESCHEDULING. THE SURVEY NOTES THAT THE SHARE OF AID FINANCED IMPORTS HAS DECLINED FROM 60 PERCENT IN 1967/68 TO 29 PERCENT IN 1973/74.

8. THE SURVEY RECOMMENDS A REORIENTATION IN FAMILY PLANNING. THE FAMILY PLANNING PROGRAM HAS CREATED GREATER AWARENESS OF THE UNCLASSIFIED

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POPULATION PROBLEM AND HAS RESULTED IN A DECLINE IN THE BIRTH RATE. HOWEVER, PROGRESS HAS BEEN SUBSTANTIALLY BELOW EXPECTATIONS.

9. IN SUM, THE SURVEY DESCRIBES INDIA'S ECONOMIC PERFORMANCE IN IFY 1974/75; THE FIRST YEAR OF THE FIFTH FIVE-YEAR PLAN AS "OUT OF LINE WITH THE EXPECTATIONS". REGARDING GROWTH PROSPECTS FOR IFY 1975/76 BEGINNING ON APRIL 1 THIS YEAR, IT NOTES THE "RISKY" NATURE OF FORECASTING IN AN ECONOMY IN WHICH AGRICULTURE ACCOUNTS FOR NEARLY ONE-HALF OF NATIONAL INCOME IT ALSO NOTES THE "HIGHLY UNCERTAIN INTERNATIONAL ENVIRONMENT". NEVERTHELESS, THE SURVEY STATES THAT ON CURRENT EXPECTATIONS, THE OVERALL RATE OF GROWTH IN IFY 1975/76 IS LIKELY TO BE HIGHER THAN IN 1974/75, ALTHOUGH IT PREDICTS NO "DRAMATIC" IMPROVEMENTS IN THE IMMEDIATE FUTURE. SCHNEIDER

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